

# PERAC AUDIT REPORT



Fall River



Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2013





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | PHILIP Y. BROWN, ESQ. | JOHN B. LANGAN | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. MCCARTHY

November 24, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Fall River Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report. Please note that the two findings are beyond the direct control of the Fall River Retirement Board. We encourage the Board to assist in resolving these findings.

In closing, I acknowledge the work of examiners Susan Kerr, Sam O'Brien, John J. Shea and William Walsh who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Bank Reconciliations**

The Fall River Retirement Board maintains two accounts with the Bank of America. We observed that the City of Fall River's Treasurer does not perform a reconciliation function on either of these accounts. Currently, the Executive Director of the Fall River Retirement Board performs the reconciliation function. We observed the Executive Director controls the inventory of blank check stock. A facsimile signature of the Treasurer is embedded in the software application. The Executive Director is also responsible for posting transactions to the software system. Based on this evaluation, the required separation of duties is not evident. Sound internal control procedures would dictate that all bank accounts are reconciled by someone other than the employee who is responsible for posting all financial activity to the system, has control of the blank check inventory and is responsible for initiating payments to retiree's and vendors of the system.

G.L. c. 32, § 23(2)(a) states in part that the City Treasurer shall be the treasurer-custodian of the retirement system funds. Implicit in this directive is the responsibility of reconciling the funds of the Retirement Board. Explicitly, page 8-1 of the Treasurer's Manual (2009 revision) published by the Massachusetts Collectors and Treasurers Association states: "The treasurer should transmit reconciliations of all cash to the retirement board on a monthly basis."

It should be noted that the Treasurer of the City of Fall River is paid \$3,000 annually for services on behalf of the Fall River Retirement Board.

**Recommendation:** The Board must ensure that the Treasurer fulfills all obligations as custodian of the fund. The Treasurer must be instructed to provide all appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis for all operating accounts. Any discrepancies between the bank activity and the general ledger must be promptly identified and resolved. If the Retirement Board does not receive completed reconciliations by the end of the following month, it should formally request the reconciliation in writing from the Treasurer's Office.

## **Board Response:**

This issue has been addressed with the City Treasurer. The Treasurer provides copies of all bank statements and the outstanding check list. He will now certify that account reconciliations are accurate and balance to the general ledger.

## **2. Board Member Attendance:**

One Board member missed 47% of the meetings in 2011 and 42% of the meetings in 2012. Another Board Member missed 31% of the meetings in 2011. A third Board Member missed 42% of the meetings in 2012 and 50% of the meetings in 2013. The result is an attendance rate for three Board members that is well below the seventy-five percent minimum considered reasonable. Such a level of absenteeism is considered to be excessive.

The Board Member position appointed by the Mayor has been vacant since October 2013.

## **Recommendation:**

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

schedule of Board meetings in order to better accommodate its members. It should be noted that Board members receive stipends in consideration for regular attendance and participation at the monthly Board meetings. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements. Consideration may also be given to the adoption of remote participation in certain circumstances.

The Chairman of the Retirement Board should continue to petition the Mayor requesting that he fulfill his responsibility to appoint someone as his representative to the Retirement Board as soon as possible.

### **Board Response:**

The Board understands its obligation to the retirement system and makes every effort to attend meetings. The Board has adopted the ability for remote participation.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***



## STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2013	2012	2011
<b>Net Assets Available For Benefits:</b>			
Cash	\$2,007,195	\$3,850,918	\$418,513
Pooled Alternative Investment Funds	6,067,135	6,275,186	6,368,716
PRIT Cash Fund	3,500,041	0	0
PRIT Core Fund	211,683,281	181,872,599	175,756,254
Prepaid Expenses	4,324	4,324	0
Accounts Receivable	11,708,304	21,056,388	12,572,674
Accounts Payable	(6,039)	0	0
<b>Total</b>	<u>\$234,964,241</u>	<u>\$213,059,415</u>	<u>\$195,116,157</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$74,568,223	\$72,167,750	\$69,988,018
Annuity Reserve Fund	28,694,378	28,974,997	28,606,503
Pension Fund	15,475,106	14,914,917	610,745
Military Service Fund	71,159	89,898	86,018
Expense Fund	0	0	0
Pension Reserve Fund	<u>116,155,374</u>	<u>96,911,853</u>	<u>95,824,874</u>
<b>Total</b>	<u>\$234,964,241</u>	<u>\$213,059,415</u>	<u>\$195,116,157</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$67,944,190	\$28,278,877	\$9,117,929	\$82,897	\$0	\$96,863,320	\$202,287,213
Receipts	6,651,927	855,624	20,259,144	16,828	1,371,413	(1,037,800)	28,117,135
Interfund Transfers	(3,706,768)	3,721,121	0	(13,707)	0	(646)	0
Disbursements	(901,332)	(4,249,119)	(28,766,328)	-	(1,371,413)	0	(35,288,191)
Ending Balance (2011)	69,988,018	28,606,503	610,745	86,018	0	95,824,874	195,116,157
Receipts	6,918,023	860,796	22,946,908	10,225	1,520,350	22,268,955	54,525,257
Interfund Transfers	(4,036,998)	4,049,861	21,175,458	(6,346)	0	(21,181,975)	0
Disbursements	(701,293)	(4,542,163)	(29,818,193)	-	(1,520,350)	0	(36,581,999)
Ending Balance (2012)	72,167,750	28,974,997	14,914,917	89,898	0	96,911,853	213,059,415
Receipts	7,316,839	871,302	23,772,871	1,523	1,694,800	26,896,333	60,553,667
Interfund Transfers	(3,503,519)	3,520,274	7,656,317	(20,261)	0	(7,652,812)	0
Disbursements	(1,412,847)	(4,672,195)	(30,869,000)	-	(1,694,800)	0	(38,648,841)
Ending Balance (2013)	<u>\$74,568,223</u>	<u>\$28,694,378</u>	<u>\$15,475,106</u>	<u>\$71,159</u>	<u>\$0</u>	<u>\$116,155,374</u>	<u>\$234,964,241</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Members Deductions	\$6,909,807	\$6,473,920	\$6,043,603
Transfers from Other Systems	159,606	218,703	298,807
Member Make Up Payments and Re-deposits	53,983	45,836	71,357
Member Payments from Rollovers	103,600	103,615	95,673
Investment Income Credited to Member Accounts	<u>89,844</u>	<u>75,949</u>	<u>142,487</u>
Sub Total	<u>7,316,839</u>	<u>6,918,023</u>	<u>6,651,927</u>
<b>Annuity Reserve Fund:</b>			
Recovery of Annuity from Reinstatement	5,338	7,238	0
Investment Income Credited to the Annuity Reserve Fund	<u>865,964</u>	<u>853,558</u>	<u>855,624</u>
Sub Total	<u>871,302</u>	<u>860,796</u>	<u>855,624</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	275,487	249,691	244,735
Received from Commonwealth for COLA and Survivor Benefits	816,156	845,999	901,779
Pension Fund Appropriation	22,645,790	21,810,973	19,089,430
Settlement of Workers' Compensation Claims	22,720	23,000	23,200
Recovery of Pension from Reinstatement	12,718	17,245	0
Sub Total	<u>23,772,871</u>	<u>22,946,908</u>	<u>20,259,144</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	1,250	10,097	16,461
Investment Income Credited to the Military Service Fund	<u>273</u>	<u>128</u>	<u>366</u>
Sub Total	<u>1,523</u>	<u>10,225</u>	<u>16,828</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>1,694,800</u>	<u>1,520,350</u>	<u>1,371,413</u>
Sub Total	<u>1,694,800</u>	<u>1,520,350</u>	<u>1,371,413</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	429,210	394,027	399,498
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	7,907	3,829	2,920
Miscellaneous Income	12,012	43,401	7,588
Excess Investment Income	<u>26,447,204</u>	<u>21,827,698</u>	<u>(1,447,806)</u>
Sub Total	<u>26,896,333</u>	<u>22,268,955</u>	<u>(1,037,800)</u>
<b>Total Receipts, Net</b>	<u>\$60,553,667</u>	<u>\$54,525,257</u>	<u>\$28,117,135</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$669,042	\$581,776	\$410,916
Transfers to Other Systems	<u>743,805</u>	<u>119,516</u>	<u>490,416</u>
Sub Total	<u>1,412,847</u>	<u>701,293</u>	<u>901,332</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	4,625,863	4,362,361	4,163,326
Option B Refunds	<u>46,332</u>	<u>179,802</u>	<u>85,793</u>
Sub Total	<u>4,672,195</u>	<u>4,542,163</u>	<u>4,249,119</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	18,493,271	17,774,328	17,041,046
Survivorship Payments	1,599,589	1,613,650	1,542,795
Ordinary Disability Payments	631,807	558,592	567,457
Accidental Disability Payments	6,210,530	6,210,553	6,052,062
Accidental Death Payments	1,949,363	1,902,415	1,858,721
Section 101 Benefits	388,909	283,484	254,214
3 (8) (c) Reimbursements to Other Systems	1,595,530	1,475,171	1,450,033
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>30,869,000</u>	<u>29,818,193</u>	<u>28,766,328</u>
<b>Expense Fund:</b>			
Board Member Stipend	14,427	15,000	15,000
Salaries and Benefits	224,919	217,668	199,542
Legal Expenses	81,700	72,205	6,551
Medical Expenses	0	0	0
Travel Expenses	3,082	7,657	4,307
Administrative Expenses	69,253	63,548	63,065
Professional Services	0	0	0
Actuarial Services	0	0	0
Education and Training	1,630	3,350	1,270
Furniture and Equipment	1,393	926	1,943
Management Fees	1,194,714	1,042,149	979,049
Custodial Fees	0	0	0
Consultant Fees	0	0	0
Rent Expenses	51,884	47,560	51,884
Service Contracts	30,762	29,283	28,474
Fiduciary Insurance	21,034	21,005	20,329
Sub Total	<u>1,694,800</u>	<u>1,520,350</u>	<u>1,371,413</u>
<b>Total Disbursements</b>	<u>\$38,648,841</u>	<u>\$36,581,999</u>	<u>\$35,288,191</u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
<b>Investment Income Received From:</b>			
Cash	\$0	\$0	\$2,476
Pooled or Mutual Funds	5,913,375	5,699,804	5,557,659
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Investment Income</b>	<u>5,913,375</u>	<u>5,699,804</u>	<u>5,560,134</u>
<b>Plus:</b>			
Realized Gains	9,769,832	5,449,134	5,953,534
Unrealized Gains	24,256,517	24,686,592	18,155,255
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>34,026,349</u>	<u>30,135,726</u>	<u>24,108,789</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	0	0	(101,606)
Unrealized Loss	(10,841,640)	(11,557,847)	(28,645,234)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(10,841,640)</u>	<u>(11,557,847)</u>	<u>(28,746,840)</u>
<b>Net Investment Income</b>	<u>29,098,084</u>	<u>24,277,683</u>	<u>922,083</u>
<b>Income Required:</b>			
Annuity Savings Fund	89,844	75,949	142,487
Annuity Reserve Fund	865,964	853,558	855,624
Military Service Fund	273	128	366
Expense Fund	<u>1,694,800</u>	<u>1,520,350</u>	<u>1,371,413</u>
<b>Total Income Required</b>	<u>2,650,880</u>	<u>2,449,985</u>	<u>2,369,889</u>
Net Investment Income	<u>29,098,084</u>	<u>24,277,683</u>	<u>922,083</u>
Less: Total Income Required	<u>2,650,880</u>	<u>2,449,985</u>	<u>2,369,889</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$26,447,204</u>	<u>\$21,827,698</u>	<u>(\$1,447,806)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,007,195	0.9%
Pooled Alternative Investment Funds	6,067,135	2.7%
PRIT Cash Fund	3,500,041	1.6%
PRIT Core Fund	<u>211,683,281</u>	<u>94.8%</u>
<b>Grand Total</b>	<u><b>\$223,257,653</b></u>	<u><b>100.0%</b></u>

For the year ending December 31, 2013, the rate of return for the investments of the Fall River Retirement System was 14.91%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Fall River Retirement System averaged 11.67%. For the twenty-nine year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Fall River Retirement System was 8.56%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the twenty-nine year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Fall River Retirement System voted on October 1, 2007 to invest all of the system's assets, with the exception of the funds invested with Standard Life, with the PRIT fund.

On April 27, 2011 Fall River Retirement System voted to rescind the Supplemental Investment Regulations submitted and previously approved by the Public Employee Retirement Administration Commission.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Fall River Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A 1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A 15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A 125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary, (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee), for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases, (or "pops up" to Option A), based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair market value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Fall River Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Membership

December 30, 2008

Board/Commission service is excluded from membership. Active in-service members of the Fall River Contributory Retirement System (FRCRS) who also serve on a paid Board or Commission under the jurisdiction of the FRCRS may make contributions to this System on his/her Board/Commission pay as a dual member. No additional creditable service shall be granted for Board/Commission service. Upon termination of his/her full-time employment and qualifying in-service membership within the FRCRS contributions withheld from Board/Commission pay shall cease.

December 20, 2005

All full-time permanent and provisional employees are required to become members of the Fall River Contributory Retirement System. Regularly scheduled employment of 30 hours of more per week shall constitute full-time.

Employees hired/classified as temporary, substitute, intermittent, seasonal, emergency are not eligible for membership.

Part-time employees who are regularly scheduled to work 20 or more hours per week are required to become members of the Fall River Contributory Retirement System.

Employees whose regular work schedule is less than 20 hours per week will be considered "less than part-time" and are not eligible for membership.

#### Creditable Service

February 2, 2011

Purchase of creditable service under the provisions of Chapter 235 of the Acts of 1994, which was adopted by the local legislative body of the City of Fall River on February 2, 2011, may be paid in full in one lump sum or in installments through additional payroll deductions within one year of the acceptance of the legislation for those who were unemployed and return to service prior to February 2, 2011. If the member does not complete payment in full on or before February 2, 2012 he/she shall be required to pay additional interest determined using the Fall River Retirement System's rate of buyback interest on any remaining balance. Payments via installments must be paid in full within a 5-year period beginning with the first installment.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Purchase of creditable service under the provisions of Chapter 235 of the Act of 1994 may be paid in full in one lump sum or in installments through additional payroll deductions within one year of the return to service for those who became unemployed and/or returned to service after February 2, 2011. If the member does not complete payment in full within one year of his/her return to service he/she shall be required to pay additional interest, determined using the Fall River Retirement System's rate of buyback interest on any remaining balance. Payments via installments must be paid in full within a 5-year period beginning with the first installment.

December 20, 2005

Creditable service shall be calculated on a 12-month basis for all members of the Fall River Contributory Retirement System.

Members from the school department shall be granted creditable service for the summer months upon return to service within the Fall River Contributory Retirement System in September.

Members from the school department who retire in July or August shall be granted creditable service for the portion of the summer months leading up to their retirement date if he/she completed the prior school year and shall not be required to return to service in September.

A member whose entire service is part-time shall receive one year of creditable service for each year worked 20+ hours per week.

A member employed on a part-time basis who becomes full-time shall have his/her creditable service adjusted and receive credit for his/her part-time service on a pro-rated basis as it relates to a full-time position.

A member employed on a full-time basis who becomes part-time shall receive credit for his/her part-time service on a pro-rated basis as it relates a full-time position.

A member employed on a part-time basis who becomes less than part-time shall receive credit for his/her less than part-time service on a pro-rated basis as it relates to their former part-time position.

#### Buy-backs

December 20, 2005

The Fall River Contributory Retirement Board shall only accept liability for the buyback of service rendered to governmental units within the Fall River Contributory Retirement System unless otherwise required by law.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 20, 2005

Purchase of part-time, intermittent, less than part-time or substitute service shall be pro-rated as it relates to a full-time position.

A member may purchase creditable service via payroll deduction for a period of no longer than 5 years.

Any member eligible to purchase credit for military service may do so, prior to being retired, via a lump sum payment or payroll deduction (not to exceed a period of 5 years).

#### Regular Compensation

December 20, 2005

Motor Vehicle: That the use of an employer owned motor vehicle shall be considered a fringe benefit and the value of said use shall not be considered regular compensation for retirement purposes.

#### Miscellaneous

July 28, 2009

If a retired member or survivor benefit recipient dies without a valid beneficiary on file, payment of the balance of annuity and/or pro-rated retirement allowance shall be paid to his/her surviving spouse. If there is no surviving spouse, payment of the balance of annuity and/or pro-rated retirement allowance shall be paid in equal shares to the surviving natural/legally adopted children of the retiree or survivor benefit recipient upon receipt of the following documentation:

1. A letter of request for payment from the surviving children, which must certify under the pains and penalties of perjury that they are the only known surviving children of said retiree/survivor benefit recipient. This letter must also include each surviving child's signature, address, telephone number and social security number.
2. A copy of each child's birth certificate, which must show the retiree/survivor benefit recipient as parent. If there is no surviving spouse or surviving biological or legally adopted children of the retiree/survivor benefit recipient payment of the balance of annuity and/or pro-rated retirement allowance shall be paid to his/her estate upon receipt of an estate tax identification number.

#### Travel Regulations

October 8, 2002

The Fall River Retirement System has adopted Travel Supplemental Regulations under the provisions of M.G.L. c. 7, § 50 and M.G.L. c. 32, § 21(4). These regulations are available upon written request and are also available on the PERAC website (<http://www.mass.gov/perac/fallriver>).

## NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Krishan Gupta

Appointed Member: Vacant                      Until a successor is appointed

Elected Member: Michael Coogan                      Term Expires: 12/31/2014

Elected Member: David Machado Term Expires: 12/11/2016

Appointed Member: Arthur Viana, Chairman      Term Expires: 01/27/2015

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	Fiduciary Coverage provided to a limit of \$50,000,000
Ex-officio Member:	)	Under a Master MACRS sponsored policy issued
Elected Members:	)	Through Travelers Casualty & Surety Co. of America,
Appointed Members:	)	Deductible \$100,000. Separate Fidelity coverage
Staff Employees:	)	Pertaining to ERISA/Crime to a limit of \$1,000,000
		Issued through Travelers Casualty & Surety Company,
		Deductible \$10,000.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2013.

The actuarial liability for active members was	\$206,237,623
The actuarial liability for vested, terminated members was	4,866,114
The actuarial liability for non-vested, terminated members was	1,045,218
The actuarial liability for retired members / survivors was	<u>309,959,862</u>
The total actuarial liability was	\$522,108,817
System assets as of that date were	<u>209,774,679</u>
The unfunded actuarial liability was	<u>\$312,334,138</u>
 The ratio of system's assets to total actuarial liability was	 40.2%
As of that date the total covered employee payroll was	\$71,991,123

The normal cost for employees on that date was 8.7% of payroll

The normal cost for the employer was 5.6% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Service based table with ultimate rates 4.25%, 4.50% and 4.75% for groups 1, 2 and 4 respectively.

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2013	\$209,774,679	\$522,108,817	\$312,334,138	40.2%	\$71,991,123	433.9%
1/1/2011	\$221,384,455	\$480,334,238	\$258,949,783	46.1%	\$69,236,199	374.0%
1/1/2009	\$193,429,859	\$422,942,762	\$229,512,903	45.7%	\$70,178,061	327.0%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Retirement in Past Years</b>										
Superannuation	25	30	54	68	69	66	66	67	60	48
Ordinary Disability	2	2	0	2	2	2	1	5	1	4
Accidental Disability	<u>7</u>	<u>12</u>	<u>9</u>	<u>7</u>	<u>4</u>	<u>10</u>	<u>5</u>	<u>10</u>	<u>2</u>	<u>3</u>
<b>Total Retirements</b>	34	44	63	77	75	78	72	82	63	55
 Total Retirees, Beneficiaries and Survivors	 1,492	 1,485	 1,613	 1,501	 1,500	 1,500	 1,513	 1,516	 1,521	 1,537
 Total Active Members	 1,867	 1,889	 1,862	 1,832	 1,772	 1,472	 1,467	 1,626	 1,633	 1,685
<b>Pension Payments</b>										
Superannuation	\$11,803	\$12,009	\$12,553	\$13,278	\$14,022	\$14,920	\$16,168	\$17,041	\$17,774	\$18,493
Survivor/Beneficiary Payments	1,314	1,345	1,318	1,372	1,422	1,446	1,549	1,543	1,614	1,600
Ordinary Disability	444	445	452	461	495	552	553	567	559	632
Accidental Disability	4,502	4,795	5,521	5,143	5,251	5,466	5,740	6,052	6,211	6,211
Other	<u>2,780</u>	<u>3,019</u>	<u>3,109</u>	<u>3,284</u>	<u>3,294</u>	<u>3,599</u>	<u>3,674</u>	<u>3,563</u>	<u>3,661</u>	<u>3,934</u>
<b>Total Payments for Year</b>	<b><u>\$20,844</u></b>	<b><u>\$21,613</u></b>	<b><u>\$22,952</u></b>	<b><u>\$23,539</u></b>	<b><u>\$24,484</u></b>	<b><u>\$25,983</u></b>	<b><u>\$27,685</u></b>	<b><u>\$28,766</u></b>	<b><u>\$29,818</u></b>	<b><u>\$30,869</u></b>

\* 000's omitted

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The Fall River Retirement Board leases approximately 3,052 square feet of space for its offices located at Suites 301 & 304, 30 Third Street, Fall River, MA. 02720. They signed an initial 5-year lease term (\$17.00 per sq. ft.) which expired October 31, 2013. A five year extension expiring October 31, 2018 was signed July 25, 2013. The landlord is MKM Management LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2013:

<u>For the year ending:</u>	<u>Annual Rent</u>
2014	\$51,883.92
2015	\$51,883.92
2016	\$51,883.92
2017	\$51,883.92
2018 (Through October 31, 2018)	\$43,236.60
Total future minimum lease payments required	<u>\$250,772.30</u>

Note: A Security Deposit equal to one month's rent, \$4,323.66, was paid on September 2, 2008.

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